LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS

301 State House
(317)232-9855

ADMINISTRATIVE RULE
FISCAL IMPACT STATEMENT

PROPOSED RULE: 01-393 **DATE PREPARED:** Mar 7, 2002
STATE AGENCY: Office of the Sec. of Family and Social Services **DATE RECEIVED:** Jan 23, 2002

FISCAL ANALYST: Alan Gossard
PHONE NUMBER: 233-3546

Digest of Proposed Rule: This rule amends 405 IAC 2-3-3 to exclude impairment-related work expenses in calculating income for Medicaid eligibility for the aged, blind, and disabled. The rule also adds 405 IAC 2-9 to set out eligibility requirements for Medicaid for employees with disabilities (MED Works).

Governmental Entities: This rule implements the requirements of HEA 1950 (2001) that establishes a Medicaid "Buy-in" program. This program is estimated to result in additional state costs of $0.751 M to $0.916 M in FY 2003 and $0.263 M to $0.428 M in FY 2004. In addition, there potentially could be significant offsets to the program costs, including (1) increased individual income tax revenue estimated at $0.700 M annually; and (2) additional federal grant revenues available to the state for the purpose of improving the infrastructure associated with the state's ability to provide, manage, or support services provided through the Buy-in program.

This rule places no unfunded mandates upon state government or any local government unit.

The rule provides Medicaid benefits to individuals who have a medical condition that would qualify them for the traditional Medicaid disability category, but who are not eligible for benefits under that category because they are employed. According to the Office of Medicaid Policy and Planning (OMPP), two new aid categories (called "MED Works") will be added. The first is open to any individual who either applies for Medicaid or is already a recipient of the program and who is working or has returned to work, but who has a medically qualifying disabling condition. The second category allows an individual from the first category to maintain assistance even though the individual's qualifying condition has improved. The improvement must not, however, be such as to medically render the recipient ineligible for the program according to the disability criteria. Eligible recipients will be allowed to "buy in" to the Medicaid program via a premium based on family income.

According to OMPP, individuals with incomes above 150% of the federal poverty level will pay monthly premiums based on income. The premium amounts range from $48 to $187 for individuals and from $65 to $254 for married couples. The highest amount will be for those with gross incomes above 350% of the federal poverty level. Although eligibility for the program is limited to individuals whose income does not exceed 350% for a family of one, eligibility is based on countable income, and premiums are based on gross income. Due to earned income disregards, an individual's gross income will be more than countable income. An individual with monthly gross earned income of $5,093 will be eligible for benefits with the maximum individual premium of $187. In almost all cases, according to OMPP, a person's premium under this program

will be less than his or her spenddown would be for the same income if enrolled in the traditional Medicaid disability category.

Background: The enabling legislation for Medicaid Buy-in programs was established in the federal Balanced Budget Act of 1997. These provisions were later broadened by the federal Ticket to Work and Work Incentives Improvement Act of 1999. A Buy-in program allows states the option of extending Medicaid coverage to working people with disabilities whose incomes otherwise would disqualify them from Medicaid. States, in essence, may establish a new Medicaid eligibility category with different income and asset requirements than in the regular Medicaid program. States may also implement co-payments, fees, premiums, or other cost-sharing provisions for participants.

States have considerable flexibility in designing a Buy-in program. Individuals must meet the SSI definition of disability and be working. In addition, premiums may not exceed 7.5% of the individual's income. However, a state may design premium and other cost-sharing requirements that vary by income level. In essence, an individual may, by paying premiums or sharing costs, "buy in" to the Medicaid program that then serves as a supplement to any income and health benefits the individual may receive from employment. About 15 other states are known to have implemented Buy-in programs.

The total new expenditures are due largely to new costs for personal care services and services that would otherwise be forgone because of an individual's becoming ineligible for Medicaid due to increased earnings from employment. In addition, there would be initial costs for computer system changes, additional staff and contracts, and for the Work Incentives Council. There would also be cost offsets in the form of premium payments paid by the Buy-in participants. The target population of Medicaid Buy-in participants is estimated to be 1,369 in FY 2003. The projected costs as estimated by OMPP are provided in the following table.

	FY 2003		FY 2004	
	Total Costs	**State Share**	**Total Costs**	**State Share**
Health Services:				
Personal Care Services *	$0.427 M	$0.162 M	$0.427 M	$0.162 M
Continued Services **	$0.772 -$1.206 M	$0.293-$0.458 M	$0.772 - 1.206 M	$0.293- 0.458 M
Health Services - Total	$1.199-$1.633 M	$0.455-$0.620 M	$1.199-$1.633 M	$0.455-$0.620 M
Administrative Costs: ***				
System Changes	$1.183 M	$0.459 M	$0.031 M	$0.012 M
Staff	0.151 M	0.075 M	0.098 M	0.049 M
Contracts	0.770 M	0.385 M	0.740 M	0.370 M
Work Incentives Council	0.003 M	0.001 M	0.003 M	0.001 M
Administrative - Total	$2.107 M	$0.920 M	$0.873 M	$0.432 M
Premiums Received:	(1.019 M)	(0.624 M)	(1.019 M)	(0.624 M)
Net Program Costs:		**$0.751-$0.916 M**		**$0.263-$0.428 M**

* Personal Care Services information based on data received from Wisconsin.
** Buy-In participants potentially will have reduced Medicaid expenditures due to the ability of some participants to participate in employer-sponsored health benefit programs, SSDI recipients eligible for Medicare with Medicaid only providing wrap-around services, and because working individuals may have less utilization of Medicaid services. Some research has shown that fully employed mentally ill clients have lower utilization rates (about 64% of the utilization of unemployed clients) of Medicaid services through the Medicaid Rehab Option. The lower estimate of the cost of continued services reflect this potential utilization of Medicaid services.
*** Some administrative expenditures may fall in FY 2002. Program expenditures will begin in FY 2003.

Source: OMPP (all information exclusive of the personal care services data) and the state of Wisconsin (personal care services data).

The program cost estimate includes premiums paid by program participants based on a sliding fee scale ranging from $48 to $254 with the average cost-sharing per recipient assumed to be about $100 per person per month. Premium revenue must be shared with the federal government at the same rate Medicaid expenditures are shared.

The number of Buy-in participants that will require personal assistance services is not known with certainty. A preliminary estimate of 2% of the participants is assumed based on evidence from Wisconsin's Buy-in program. Wisconsin has approximately 900 participants in their Buy-in program with 15 (1.7%) using personal care services.

The Medicaid Buy-in program is cost-shared with the federal government. Federal financial participation for Medicaid services is approximately 62% with the state share being the balance of 38%.

There would also be additional individual income tax revenue generated by individuals who are able to work and earn income because of this program. Additional individual income tax revenues are estimated to be about $700,000 annually once average income levels are reached. This revenue is deposited into the state General Fund. Additional revenues may also include federal grant revenue. These sources of revenue are not included in the cost estimates in the table, above.

Background on Income Tax Revenue Estimate: The extent of the additional tax revenues generated will

depend upon the average income and deductions of those individuals in the Buy-in program. The following assumptions were used in the calculation of the estimate: (1) Average earnings of individuals in the U.S. with a severe disability who are not prevented from working and whose income is not restrained by federal program income eligibility requirements is $20,976 (1997: U.S. Census Bureau); (2) Average annual income of individuals with severe disability and receiving Social Security Disability (SSDI) payments is $7,803 (1997: U.S. Census Bureau); (3) Indiana per capita income relative to U.S. per capita income equals 92%; (4) Annual per capita income growth of 3.58%; and (5) 1,369 individuals participating in the Medicaid Buy-in program. The 1997 average income estimates were inflated by the average growth in per capita personal income over the last five years and discounted by Indiana's per capita personal income relative to that of the U.S. Based on an individual income tax rate of 3.4%, the additional tax revenue generated by working individuals is estimated to be about $700,000 annually when the average income levels are reached.

In addition, there may potentially be increased revenues from federal grants. Federal grants include HCFA Infrastructure Grants and other demonstration grants with grant levels of $500,000 or more per year with no state match required. HCFA reports that most state applications for Infrastructure grants have been approved. However, acquisition of any grants will depend upon federal and state administrative actions.

Regulated Entities:

Information Sources: Karen Tritz, HCFA, (410) 786-0789.

"Ticket to Work: Medicaid Buy-in Options for Working People with Disabilities," National Conference of State Legislatures, July 2000.

"Americans with Disabilities: Household Economic Studies," U.S. Census Bureau, U.S. Department of Commerce, 1997.